




**Annual
Report
1976**



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FORTY-SIXTH
Annual Report
OF THE BOARD OF DIRECTORS OF



for the year ended
December 31, 1976

Annual Report

BIRD CONSTRUCTION COMPANY LIMITED

(incorporated under the laws of Saskatchewan)
for the year ended December 31, 1976

REGISTERED HEAD OFFICE

Corner 7th Avenue and Smith Street,
Regina, Saskatchewan

CORPORATE HEAD OFFICE

1064 Sargent Avenue,
Winnipeg, Manitoba

EXECUTIVE OFFICE

Valhalla Executive Centre,
Etobicoke, Ontario

DIRECTORS

D. S. MacDonald (Chairman) Regina
J. Lawrie (Vice Chairman) Winnipeg
R. A. Bird (President) Toronto
H. A. Benham Winnipeg
L. Axworthy Winnipeg
R. H. Kroft Winnipeg
M. H. Troskey Vancouver
S. T. Paton Toronto
W. B. Northcote Toronto

OFFICERS

D. S. MacDonald . . Chairman of the Board
J. Lawrie Vice Chairman of the Board
R. A. Bird President
W. B. Northcote . . Executive Vice President
C. R. Tarr Vice President

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company
Toronto, Winnipeg, Regina,
Calgary, Vancouver

AUDITORS

Peat, Marwick, Mitchell & Co.

During a year which saw increasing competition and declining activity in the marketplace, your Company managed nevertheless to produce a reasonable return. Volume of business was down, yet we have been successful in maintaining overall profit margins and have even improved profits in terms of return on revenue.

This illustrates the underlying strength of the Company, its directions and the people at all levels who make it work.

The volume of contracts completed and fees secured on Construction Management in 1976 amounted to \$31,365,322. Building Supplies sales were \$4,446,244. The total value of incomplete contracts as of December 31, 1976 being carried forward was \$51,149,189. The total value of Construction Management projects under current active management is \$75,392,000.

Real Estate Development

Omsac Developments Limited, our Real Estate subsidiary, has disposed of its property in Napanee, Ontario. As this market area is currently depressed, management does not propose to re-enter this field at present. A market analysis of potential future development areas and a comprehensive report will be submitted to the Board of Directors prior to further action in this field.

Building Supplies Division

Sales for the year in this area amounted to \$4,446,244, as compared to a 1975 level of \$3,511,563. Sales and profits of this Division continue to show substantial growth and good return, suggesting the need for expansion of the operation.

Establishment of a new branch in this Division did not occur in 1976 but the program of expansion is now being pursued actively. To prepare for the creation of new branches, we are increasing the depth of management of the operation.

Special Projects Division

The Company continues to actively

pursue the securing and administration of Major Project Construction Management assignments, acting as a professional agent. In addition, our branch operations have been most successful in the execution of smaller Construction Management contracts with values ranging from one half million to fifteen million dollars.

The \$50+ million Transport Canada Training Institute in Cornwall, Ontario continues in the active construction phase and is proceeding satisfactorily, with completion scheduled for 1979.

Completion of the \$100+ million Pacific Centre and Four Seasons Hotel Development in Vancouver, B.C. in 1976 has freed Special Projects personnel, thus strengthening our British Columbia operations.

T.C. Morgan, Director of Engineering Services, will take on additional responsibility as manager of the newly-organized Industrial Projects Division. The major objective of this new Division will be the expansion of the Company's role in the resource-based industry field.

Organizational Changes

The following appointments were made in 1976:

T.C. Morgan, Manager, Industrial Projects

D.L. Mackinnon, Ontario Regional Manager

N.W. Fletcher, Manager, Special Projects

N. Graver, Manager, Bird Building Supplies, Winnipeg

R.R. Benell, Manager, Equipment Division

Economic Outlook— 1977 and 1978

A mixture of positive and negative elements in the economy make the view of the future business picture cloudy. To clarify the view, we must examine regional and sectoral variations.

On the positive side, there are indica-

tions that future government policy and possible moderation in labour demands will help spur economic growth and new construction starts. Recent statements by the Minister of Finance, recognizing the need to stimulate business by policy changes and easing of AIB restrictions, hold out some promise. However, this is over the longer term, with new contract awards coming, at best, by late 1977 or early 1978. A lessening of the inflation rate on construction costs, brought on by stabilizing of material prices and contractor bids, plus moderation of labour increases, suggest some hope of restoring industry control of future cost increases. This is an essential ingredient in achieving a resurgence of capital spending.

On the negative side, the Canadian economy continues to be uncompetitive in world terms, thus deterring capital investment and expenditures. Canadian wages have generally surpassed their counterparts in the U.S. without showing any improvement in productivity levels, making Canada less attractive for foreign investment. In fact, even domestic investment seems to be in peril, as evidenced by the transfer of Canadian real estate funds into the American market. Despite the moderating effect of the Anti-Inflation program, organized construction labour does not appear to be prepared to adopt a more rational approach in its future labour negotiations during the post-control period. The Company, in planning for this post-control period, will find it necessary to consider seriously the effect of future wage, salary and price changes on Company operations.

Despite some difficulties and frustrations, the Company has accepted and supported the Anti-Inflation program. In some cases, AIB rulings have increased wages of unionized hourly-wage workers above guidelines, resulting in inequities between these workers and those on salaries. The Company made application to make adjustments in such frozen salaries but to some extent, these inequities are likely to continue until the post-control period.

On a regional basis, the following factors are likely to affect our business in 1977:

British Columbia

Continued labour instability and high wage costs in the construction and exporting industries make this an unattractive area for new investment. We anticipate that the market will continue to be intensely competitive during 1977 but the Company's share of new market opportunities should be above average.

The Prairies

The immediate term outlook for new business remains quite bright throughout the Prairies, despite heavy competition. Alberta continues as the leader, with a substantial industrial program getting under way in significant volume. In Saskatchewan, the current and previous high volume of business must be countered against other economic factors. An impending wheat surplus and a forecasted drought in 1977 may force a substantial reduction in cash flow, both private and public, later in 1977, with a subsequent lowering of construction activity in 1978. The market in Manitoba, not as volatile as the other two Prairie Provinces, continues at a relatively stable level of activity.

Ontario

The Ontario market remains the most depressed but prospects for later in 1977 appear better, tied largely to a resurgence of the American economy and a parallel growth of the manufacturing sector of this industrial province. In addition, substantial general unemployment may have had a beneficial effect on control of labour costs and moderation of wage and salary demands generally. Ontario's underlying economic strength give it the best likelihood of long term recovery. Present depressed conditions will probably be replaced with a more buoyant economy within the next two years, surpassing our other market areas, with the possible exception of Alberta. We expect this upward trend to begin in the latter part of 1977.

Profit Sharing Plan

Company performance, measured in terms of an improved rate of return of profits, is the result, in great degree, of better teamwork by our employees. This is, in turn, the result of the opportunity employees now have to share in the Company's success through the Profit Sharing program. The plan also acts as a counter-balance to the discriminatory impact of the Anti-Inflation program on salaried employees, whose wages were frozen at a time when many union employees received increases substantially higher than guidelines.

The continuation of the Profit Sharing Plan is assured, although it may require modification in future to ensure its administrative effectiveness.

Other Company Programs

During 1976, the Company introduced and publicized its Long Range Plans (five years) to the employees. One of the most significant highlights of this plan is the intention to achieve a unique position in the market-place, by emphasis on development of our internal technical ability in such specialty areas as our "tilt-up construction method", our civil engineering forming contracts in both industrial and building foundations and structures, and in other areas where Construction Engineering expertise is being developed by us. Our Long Range objective is to achieve a professional capability by codification and dissemination of a body of knowledge called "Construction Engineering"... a combination of Industrial and Structural Engineering with Business Administration principles.

In addition to in-house technical development of personnel, the Company has obtained a close contact with two Canadian universities which have the greatest empathy with the construction community. Through this contact, a research and development liaison has been established. In addition, recruitment programs for graduates and undergraduates have been initiated which allow the inclusion into Company

ranks of increasingly qualified technical personnel to enhance the programs outlined above. This liaison provides also the opportunity to influence development of these institutions' teaching curricula toward more construction-oriented subjects, which will provide better training for prospective entrants into our industry.

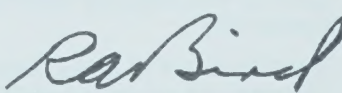
Appreciation

The enthusiasm and technical expertise of our employees, both present and future, gives the Company the strength it needs to meet the economic pitfalls of our highly unstable environment and to achieve an ever-improved level of performance.

Despite a year studded with economic dangers, despite the atmosphere of confusion and frustration brought about by attempts to control inflation, despite all adverse factors, your Company has maintained a strong presence in all markets during the past year. Its performance is in no small part the result of the response of our employees to the challenge of developing a dynamic organization.

In fiscal terms, these people have produced outstanding results, accepting Company programs and carrying them out to the fullest. In non-financial areas, in development of the Company as a whole, they have worked equally hard, sustaining our objectives.

For this dedication and realization of hope, I would like on behalf of the Directors and Shareholders to express my deepest appreciation.

R. A. Bird 
President

Consolidated Statement of Income

Year ended December 31, 1976 with comparative figures for 1975

	1976	1975
Revenue and sales:		
Construction revenue	\$ 31,365,322	43,367,864
Building supplies sales	4,446,244	3,511,563
	<u>✓35,811,566</u>	<u>✓46,879,427</u>
Construction costs, cost of sales, general and administrative expenses	<u>35,351,005</u>	<u>45,789,790</u>
Operating income before the following	<u>460,561</u>	<u>1,089,637</u>
Other income (loss):		
Interest and investment income	69,961	62,638
Net income (loss) of OMSAC Developments Limited	<u>92,775</u>	<u>(24,704)</u>
	<u>162,736</u>	<u>37,934</u>
Income before income taxes	<u>623,297</u>	<u>1,127,571</u>
Income taxes:		
Current	293,665	551,195
Deferred	<u>(18,300)</u>	<u>34,900</u>
	<u>275,365</u>	<u>586,095</u>
Net income	<u>\$ 347,932</u>	<u>541,476</u>

See accompanying notes to consolidated financial statements.

Consolidated Statement of Retained Earnings

Year ended December 31, 1976 with comparative figures for 1975

	1976	1975
Retained earnings, beginning of year	\$ 3,201,513	2,732,037
Add net income	347,932	541,476
Deduct dividends paid	<u>(94,800)</u>	<u>(72,000)</u>
Retained earnings, end of year	<u>\$ 3,454,645</u>	<u>3,201,513</u>

See accompanying notes to consolidated financial statements.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Bird Construction Company Limited as at December 31, 1976 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of the auditors

who have examined the financial statements of the subsidiary.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the company, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted

accounting principles applied on a basis consistent with that of the preceding year. All the transactions of the company that have come within our notice, in our opinion, have been within the objects and powers of the company.

Winnipeg, Manitoba
March 7, 1977

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Consolidated Balance Sheet

December 31, 1976 with comparative figures for 1975

Assets

	1976	1975
Current assets:		
Cash	\$ 1,827,806	1,157,460
Progress estimates and other receivables	6,245,792	4,884,968
Holdbacks receivable upon completion of contracts	3,228,391	3,483,408
Long-term receivables due within one year	20,593	93,860
Costs of uncompleted contracts in excess of related billings	222,872	232,949
Inventories	888,830	782,258
Tender and contract deposits	73,000	199,500
Prepaid expenses	256,260	347,218
Tax allocation balances for contract loss provision	18,300	—
Total current assets	12,781,844	11,181,621
Non-current receivables and investments (note 2)	595,082	127,168
Property held for resale	—	2,166,639
Land, buildings and equipment:		
Buildings and equipment	1,427,717	1,402,028
Less accumulated depreciation	1,055,934	989,949
	371,783	412,079
Land	34,466	34,466
Net land, buildings and equipment	406,249	446,545
	\$ 13,783,175	13,921,973

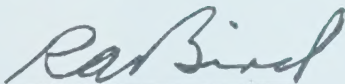
See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity

	1976	1975
Current liabilities:		
Bank loan	\$ —	14,000
Accounts payable and accrued expenses	6,843,269	4,758,101
Income taxes payable	120,000	351,600
Holdbacks payable upon completion of sub-contracts	1,994,947	2,493,476
Current portion long-term debt	—	10,800
Billings on uncompleted contracts in excess of related costs	1,022,314	980,283
Total current liabilities	<u>9,980,530</u>	<u>8,608,260</u>
Long-term debt (note 3)	300,000	2,064,200
Shareholders' equity:		
Capital stock:		
5% cumulative redeemable preferred shares of \$100 par value per share, redeemable at \$105. Authorized 1,190 shares; none issued .	—	—
Common shares of no par value. Authorized 50,000 shares; issued 24,000 shares at stated value (note 4)	48,000	48,000
Retained earnings	<u>3,454,645</u>	<u>3,201,513</u>
Total shareholders' equity	<u>3,502,645</u>	<u>3,249,513</u>
	<u>\$ 13,783,175</u>	<u>13,921,973</u>

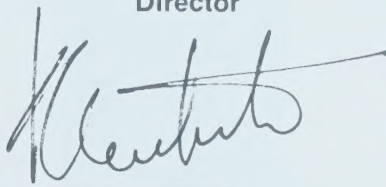
On behalf of the Board:

R. A. Bird



Director

W. B. Northcote



Director

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1976 with comparative figures for 1975

	1976	1975
Funds provided:		
From current operations:		
Net income	\$ 347,932	541,476
Add (deduct) items not requiring (providing) working capital during the year:		
Depreciation	101,629	115,129
Gain on sale of shopping mall	(91,948)	—
Gain on disposal of land and equipment	(6,215)	(11,838)
Total funds provided from operations	351,398	644,767
Proceeds from non-current receivables and investments	57,086	97,397
Proceeds on sale of shopping mall	2,264,970	—
Proceeds on disposal of land and equipment	9,256	13,635
Increase in long-term debt	550,000	50,000
Total funds provided	3,232,710	805,799
Funds applied:		
Purchase of equipment	70,757	139,333
Mortgage receivable acquired as part of proceeds on sale of shopping mall	525,000	—
Acquisition of non-current receivables and investments	—	19,383
Long-term debt	2,314,200	10,800
Dividends	94,800	72,000
Additions to property held for resale	—	24,849
Total funds applied	3,004,757	266,365
Increase in working capital	227,953	539,434
Working capital, beginning of year	2,573,361	2,033,927
Working capital, end of year	\$ 2,801,314	2,573,361
Summary of Working Capital		
Current assets	\$ 12,781,844	11,181,621
Current liabilities	9,980,530	8,608,260
Working capital	\$ 2,801,314	2,573,361

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the wholly-owned subsidiary, OMSAC Developments Limited, which is engaged in real estate development.

(b) Recognition of Revenue and Income

- (i) The company recognizes revenue and income from construction contracts as follows:

Stipulated sum contracts which have a duration of two years or less are recorded under the completed-contract method of accounting; stipulated sum contracts with a longer duration are recorded under the percentage-of-completion method of accounting.

Cost plus percentage contracts, fixed-fee contracts, and unit-price contracts are recorded on the basis of the billing terms of the related contracts.

- (ii) Revenue and income from project management contracts are recorded progressively over the term of the related contracts.
- (iii) Losses which are apparent prior to completion of contract work are provided for in full.

(c) Inventories

Inventories are valued at the lower of cost and net realizable value.

(d) Income Taxes

The company follows tax allocation accounting principles for all timing differences between accounting and taxable income, except for the tax losses of the subsidiary (see note 5).

(e) Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost. Buildings and equipment are being depreciated using the diminishing balance method. The depreciation rates applicable to the various classes of assets are as follows:

Paving	4%
Buildings	5% to 10%
Equipment	substantially at 30%
Leasehold improvements	life of lease

Depreciation expense for the year amounted to \$101,629 (1975 - \$115,129).

(f) Pension Costs for Current Services

Pension costs for current services are charged to earnings on a current basis. The estimated unfunded past service costs will be paid and charged against income over periods not exceeding thirteen years.

2. Non-Current Receivables and Investments

	1976	1975
10¼% second mortgage due January 1, 1986, repayable \$4,785 monthly, principal and interest	\$ 489,000	—
12% serial debenture notes of Ramsay Bird Limited	—	78,250
Mortgages and agreements receivable with various interest rates and maturity dates	60,663	87,821
	<u>549,663</u>	<u>166,071</u>
Less principal instalments receivable within one year included in current receivables	20,593	93,860
	<u>529,070</u>	<u>72,211</u>
Other investments, at cost	66,012	54,957
	<u>\$ 595,082</u>	<u>127,168</u>

Until the occupancy in the Napanee Shopping Mall reaches a pre-determined level, the second mortgage yields interest at the rate of 9% per annum and no monthly repayment of principal is required.

3. Long-Term Debt

Term bank loan due 1981, interest at 1½% above the prime bank rate, repayable \$80,000 annually; 1977 instalment prepaid in 1976	\$ 300,000	—
Term loan, interest at 2% above the prime bank rate	—	575,000
10¼% mortgage	—	1,500,000
	<u>\$ 300,000</u>	<u>2,075,000</u>
Less current portion	—	10,800
	<u>\$ 300,000</u>	<u>2,064,200</u>

Long-term debt interest expense is \$102,960 (1975 - \$222,004).
The term bank loan is secured by registered assignment of book debts.

4. Capital Stock

- (a) 5,000 of the unissued common shares have been reserved for issue as partial compensation of executive personnel from time to time and in such numbers by way of bonus as the directors may decide. As at December 31, 1976, no such shares had been issued.
- (b) The shareholders of the company have confirmed an arrangement for the company to provide money for purchase by trustees of fully paid up common shares in the company, to be held for purchase by employees of the company.

5. Deferred Income Taxes

OMSAC Developments Limited, the subsidiary, has losses for tax purposes of approximately \$23,525, available for application against taxable income of future years.

6. Remuneration of Directors and Senior Officers

The aggregate direct remuneration of the directors in their capacity as directors was \$27,200. Aggregate direct remuneration of the senior officers was \$267,112.

7. Earnings Per Share

	1976	1975
Basic earnings per share	\$14.50	22.56
Fully diluted earnings per share	\$12.00	18.67

Fully diluted earnings per share is calculated after giving effect to the possible issue of shares as described in note 4(a) assuming the company would receive no cash for the issue of these shares.

8. Commitments

The unfunded past service costs are estimated at \$136,051.

9. The Anti-Inflation Act

The company and its subsidiary are subject to the Anti-Inflation Act which provides as from October 14, 1975 for restraints on profit margins, compensation to employees and dividends to shareholders.

Five Year Financial Summary

	1976	1975	1974	1973	1972
OPERATING RESULTS:					
Revenue and sales	\$35,811,566	46,879,427	48,322,140	46,305,525	51,216,958
Income (loss) before income taxes and extraordinary items	623,297	1,127,571	653,148	(111,000)	84,913
Income taxes	275,365	586,095	271,624	15,796	52,484
Extraordinary items	—	—	—	—	129,587
Net income (loss)	347,932	541,476	381,524	(95,204)	162,016
Cash dividends paid	94,800	72,000	72,000	72,000	72,000
FINANCIAL POSITION:					
Current assets	12,781,844	11,181,621	14,340,231	15,483,550	14,324,183
Current liabilities	9,980,530	8,608,260	12,306,304	13,953,814	12,498,996
Working capital	2,801,314	2,573,361	2,033,927	1,529,736	1,825,187
Property held for resale	—	2,166,639	2,141,790	1,414,471	23,918
Land, buildings and equipment, net	406,249	446,545	424,138	321,988	248,500
Long-term debt	300,000	2,064,200	2,025,000	1,300,275	—
Shareholders' equity	3,502,645	3,249,513	2,780,037	2,470,513	2,637,717
OTHER INFORMATION:					
Return on revenue and sales97%	1.16%	.79%	(.20%)	.32%
Net income (loss) per share	14.50	22.56	15.90	(3.97)	6.75
Return on shareholders' equity, prior year end	10.71%	19.48%	15.44%	(3.61%)	6.28%
Book value per share	145.94	135.40	115.83	102.94	109.90
Number of shares outstanding	24,000	24,000	24,000	24,000	24,000
Number of shareholders	152	139	145	147	140
Value of work underway at December 31:					
Firm price	51,149,189	22,615,630	33,799,571	42,924,550	—
Construction management	75,392,000	87,793,000	77,792,000	46,763,420	—

1977 DIRECTORY

Executive Offices REGINA

WINNIPEG

TORONTO

Construction Division Area Operations Offices TORONTO

WINNIPEG

REGINA

CALGARY

EDMONTON

VANCOUVER

Construction Management & Special Projects Division TORONTO

VANCOUVER

Building Supplies Division WINNIPEG

LETHBRIDGE

Equipment Division WINNIPEG

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Vice Chairman of the Board

J. G. TOMCHUK
Controller

T. C. MORGAN, P. Eng.
Director of Engineering Services
Manager, Industrial Projects
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R. A. BIRD, P. Eng.
President

W. B. NORTHCOTE, C.A.
Executive Vice-President

C. ROBERT TARR
Vice President

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Chief Engineer
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